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AHED MUSIC CORPORATION LIMITED

ANNUAL REPORT 1975



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**HIGHLIGHTS OF OPERATIONS** (in thousands of dollars)

YEARS ENDED NOVEMBER 30	1975	1974	1973	1972	1971
OPERATING					
Gross Revenue	\$8,082	\$6,826	\$6,118	\$5,306	\$5,011
Operating Profit (before extraordinary items)	163	63	31	261	242
Net Income (loss)	184	22	(42)	261	242
FINANCIAL POSITION					
Working Capital	2,022	2,026	2,109	2,193	1,312
Total Assets	4,860	4,089	4,365	3,498	3,243
Long Term Debt	518	596	715	637	39
Shareholders Equity	2,022	1,838	1,797	1,844	1,508
Capital Expenditures	210	78	223	57	81
INCOME (LOSS) PER SHARE					
Before Extraordinary Items	19.7	7.6	3.1	31.9	30.
After Extraordinary Items	22.2	2.6	(5.8)	31.9	30.
Shares Outstanding (in thousands)	826.5	826.5	826.5	826.5	807.6



TO THE SHAREHOLDERS

We are pleased to be able to report that fiscal 1975 was a year during which Ahed made significant progress in returning to the pattern of profitable growth promised in its initial years. Net revenue for the year was \$8,081,709, an increase of 18% over the \$6,825,694 generated in fiscal 1974. This net revenue increase is all the more significant considering the fact that 1975 was the first complete year during which we operated without any revenue from our former U.K. and U.S. Musical Instrument Division or our former Electronics Division in the U.K., U.S. and Canada. These divisions which contributed approximately \$3,000,000 annual sales at their peak, were closed in 1974.

Earnings in fiscal year 1975 were \$183,742 or 22.2c per share as compared with \$21,869 or 2.6c per share for 1974. Earnings in 1975 included 2.5c extraordinary income, as compared with 5c of extraordinary loss in 1974. This improvement represents a confirmation and continuation of the profit recovery which began towards the end of the third quarter of our 1974 fiscal year.

Although a number of factors contributed to our improved performance it was the deliberate execution of the management decision to change Ahed from a combination manufacturing-marketing company to one in which the emphasis is almost totally on marketing that proved most important.

Ahed's principal business includes the marketing of records and tapes, the retailing of pianos and organs, and the operating of a phonograph manufacturing plant. The Company is considering certain non-record consumer products for marketing, but will follow a policy of utilizing third-party suppliers for all manufacturing requirements. Marketing of records and tapes is supported with intensive radio and television advertising and over the past year our expertise in the use of media has grown measurably.

Our phonograph manufacturing division worked near capacity throughout the year for customers such as MCA, Polydor, Motown and Capitol Records.

Mr Music, our organ and piano retailing division continued to expand opening four stores in 1975 — Oshawa City Centre, New Sudbury Shopping Mall, Gerrard Square Toronto and the Burlington Shopping Centre. We plan to open four more stores in 1976 bringing the total to 15 at which time the division should be a consistent profit maker.

We express our thanks and appreciation to all employees for their support, co-operation and productivity during the past year.

P.G. Anderson Chairman of the Board and Chief Executive Officer

W.R. Gilliland President



AHED MUSIC CORPORATION LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (year ended November 30)

	1975	1974
Sales and royalty income	\$8,081,709	\$6,825,694
Cost of sales	4,573,220	4,209,500
Income before the undernoted expenses	3,508,489	2,616,194
Expenses:		
Selling, general and administrative	2,995,882	2,278,871
Interest — long-term debt	78,871	91,250
— short-term debt	48,129	62,904
Depreciation and amortization	89,835	80,477
	3,212,717	2,513,502
Income before income taxes and extraordinary items	295,772	102,692
Income taxes — current	105,330	25,400
— deferred	27,900	14,100
	133,230	39,500
Income before extraordinary items	- 162,542	63,192
Extraordinary items:		
Loss on sale of subsidiary company		25,323
Reduction in income taxes due to the application of prior years' losses (note 3)	21,200	
Estimated loss on liquidation of inventories		
(after income tax recoveries of \$14,000)		16,000
	21,200	41,323
Net income for the year	183,742	21,869
Retained earnings, beginning of the year	688,483	666,614
Retained earnings, end of the year	\$ 872,225	\$ 688,483
Earnings (loss) per share:		
Before extraordinary items	19.7c	7.6c
Extraordinary items	2.5c	(5.0)c
Net income	22.2c	2.6c

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of

Ahed Music Corporation Limited:

We have examined the consolidated balance sheet of Ahed Music Corporation Limited and its subsidiary companies as at November 30, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at November 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

AHED MUSIC CORPORATION LIMITED(Incorporated under the laws of Ontario)
and its subsidiary companies**CONSOLIDATED BALANCE SHEET** (as at November 30)

ASSETS	1975	1974
Current:		
Accounts receivable	\$2,460,940	\$2,111,074
Current portion of long-term receivables	31,260	21,600
Inventories, at lower of cost and net realizable value	1,783,316	1,503,349
Prepaid expenses	15,749	18,622
Income taxes recoverable		2,847
Total current assets	4,291,265	3,657,492
Fixed, at cost [note 1(d)]:		
Machinery and equipment	425,404	381,818
Office equipment	111,536	73,311
Automotive equipment	31,579	24,224
Leasehold improvements	225,870	160,730
	794,389	640,083
Less accumulated depreciation	347,909	313,506
	446,480	326,577
Other:		
Long-term receivables, less current portion	75,620	41,892
Goodwill, trademarks and patents [note 1(e)]	46,482	47,898
Cost of public financing and incorporation expenses, less amounts written off		14,823
	122,102	104,613
	\$4,859,847	\$4,088,682



LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974
Current:		
Bank indebtedness (note 2)	\$ 789,066	\$ 835,425
Accounts payable	1,319,904	745,967
Income and other taxes payable	160,351	50,406
Total current liabilities	2,269,321	1,631,798
Special term bank loan repayable by instalments totalling \$123,000 yearly, less current portion included above (note 2)	517,500	595,500
	2,786,821	3,021,821
Deferred income taxes	51,000	23,100
Shareholders' equity:		
Share capital —		
Authorized:		
1,500,000 shares without par value		
Issued and outstanding:		
826,500 shares	1,149,801	1,149,801
Retained earnings	872,225	688,483
	2,022,026	1,838,284
	\$4,859,847	\$4,088,682

On behalf of the Board: P.G.Anderson, Director — W.R.Gilliland, Director

(See accompanying notes)



AHED MUSIC CORPORATION LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended November 30)

	1975	1974
Funds provided from:		
Operations—		
Net income for the year	\$ 183,742	\$ 21,869
Add items not involving an outlay of funds:		
Depreciation and amortization	89,835	80,477
Deferred development costs written off		22,000
Deferred income taxes	27,900	14,100
Public financing costs, patents, trademarks and incorporation expenses written off	16,239	4,662
Goodwill written off		3,591
Provision for loss on sale of subsidiary company		25,323
	317,716	172,022
Proceeds on disposal of fixed assets	10,893	71,625
Long-term bank loans	45,000	
Reclassification of income taxes to deferred		9,000
Reduction in long-term receivables	31,739	21,600
	405,348	274,247
Funds used for:		
Purchase of fixed assets	220,631	149,240
Repayment of long-term debt	123,000	119,000
Increase in long-term receivables	65,467	88,815
	409,098	357,055
Decrease in working capital	3,750	82,808
Working capital, beginning of the year	2,025,694	2,108,502
Working capital, end of the year	\$2,021,944	\$2,025,694

(See accompanying notes)

AHED MUSIC CORPORATION LIMITED
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1975

1. Significant accounting policies

a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

b) Exchange translation

Current assets and liabilities in foreign currency have been translated into Canadian dollars at the approximate rate of exchange at November 30, 1975. Other transactions during the period have been translated at the rates of exchange prevailing on the respective dates of the transactions.

c) Sales

The company sells records and tapes on a "guaranteed sale" basis. Under this arrangement customers are allowed to return unsold records and tapes to the company for credit. For this reason a provision has been made for expected returns.



d) Depreciation and amortization

The company depreciates fixed assets on the diminishing balance basis at the following rates:

Machinery and equipment	—	20%
Office equipment	—	20%
Automotive equipment	—	30%

Leasehold improvements, other than for "Mr. Music" stores, are amortized on the straight-line basis over the term of the lease. Leasehold improvements for "Mr. Music" stores are amortized on the straight line basis over a five year period.

e) Goodwill

It is not the company's intention to amortize goodwill acquired prior to April 1, 1974. If it becomes apparent that the value is permanently impaired, it will be written down.

2. Bank indebtedness and special term bank loan

The bank indebtedness and special term bank loan (fully collateralized by a floating charge demand debenture) are secured by a general assignment of the book debts and inventories of the Ahed companies.

3. Income taxes

Income before income taxes and extraordinary items include the following:

	1975	1974
Income from taxable corporations	\$248,982	\$ 97,117
Foreign income not subject to income taxes	47,602	11,924
	296,584	109,041
Less losses of subsidiaries	(812)	(6,349)
Income before income taxes and extraordinary items	\$295,772	\$102,692

Reductions in income taxes of approximately \$25,000 which may result from the application of expenses unclaimed for tax purposes in prior years will be included in the income of the company as extraordinary items when, and to the extent that, they are realized.

4. Comparative figures

The comparative figures on the statement of changes in financial position have been restated to conform with the 1975 presentation.

5. Statutory information

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers of the company (as defined by the Business Corporations Act of Ontario) for the year amounted to \$190,000 (\$155,000 in 1974).

6. Commitments

Under lease agreements, the company is committed to annual rental payments of approximately \$262,000 until 1983 for certain manufacturing equipment, its manufacturing, warehousing and executive offices, and its "Mr Music" stores.

7. Anti-Inflation Program

As a public company, the company is restricted under the Anti-Inflation regulations in the payment of dividends. For the compliance period ending October 13, 1976 dividend payments are restricted to .65 cents a share.



AHED MUSIC CORPORATION LIMITED

DIRECTORS

P.G. Anderson
W.R. Gilliland
W.M. Bowen, Q.C.
D.O. Resnick, C.A.
J.C. Anderson
J.F. Jurrius, C.A.

OFFICERS

P.G. Anderson - Chairman and Chief Executive Officer
W.R. Gilliland - President
J.C. Anderson - Vice-President
J.F. Jurrius - Vice-President and Secretary

Head Office

142 Sparks Avenue, Willowdale, Ontario, Canada. M2H 2V9

Transfer Agents

Canada Permanent Trust Co.

Auditors

Clarkson, Gordon & Co., Toronto

Counsel

Blaney, Pasternak, Smela & Watson, Toronto

Bankers

Bank of Montreal

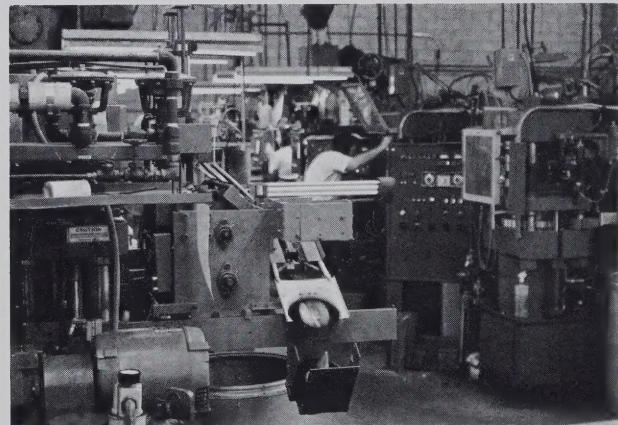
Listing

Discomania and newly released records and tape packages which Ahed distributes throughout Canada



Store front photograph of a new Mr. Music location in the New Sudbury Shopping Centre, Sudbury, Ontario.

Automatic record presses in operation at Precision Record Productions located in Toronto.



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